NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Draft date: 03/20/24

Virtual Meeting

HEALTH RISK-BASED CAPITAL (E) WORKING GROUP
Tuesday, April 16, 2024
11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

Steve Drutz, Chair	Washington	Tish Becker	Kansas
Matthew Richard, Vice Chair	Texas	Danielle Smith/Debbie Doggett	Missouri
Wanchin Chou	Connecticut	Margaret Garrison	Nebraska
Kyle Collins	Florida	Michel Laverdiere	New York
		Diana Sherman	Pennsylvania

NAIC Support Staff: Maggie Chang

AGENDA

1) Consider Adoption of February 22, 2024 Minutes—*Steve Drutz (WA)* — Attachment 1

2) Consider Referral of Proposal 2024-09-CA to Capital Adequacy (E) Task Force (UW Risk Factors – Investment Income Adjustment)—*Steve Drutz (WA)* — Attachment 2

3) Receive Update from the American Academy of Actuaries (Academy) on the Health Care Receivables Presentation—*Steve Drutz (WA) and David Quinn (Academy)* — Attachment 3

   - Proposal 2024-12-H — Attachment 4

4) Hear an Update on the H2-Underwriting Review from the Academy—*Steve Guzski (Academy)*

5) Discuss Referral letter to Financial Analysis Solvency Tools (E) Working Group and Examiner's Handbook (E) Working Group on Pandemic Risk—*Steve Drutz (WA)* — Attachment 5

6) Discuss Excessive Growth Charge—*Steve Drutz (WA)* — Attachment 6

7) Discuss Any Other Matters Brought Before the Working Group—*Steve Drutz (WA)*

8) Adjournment

Draft: 3/20/2024

Health Risk-Based Capital (E) Working Group
Virtual Meeting
February 22, 2024

The Health Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met Feb. 22, 2024. The following Working Group members participated: Steve Drutz, Chair (WA); Matthew Richard, Vice Chair, and Aaron Hodges (TX); Wanchin Chou and Sarah Mu (CT); Kyle Collins (FL); Tish Becker (KS); Danielle Smith (MO); Margaret Garrison (NE); Michael Laverdiere and Tom Dudek (NY); and Diana Sherman (PA). Also participating was: Tom Botsko (OH).

1. Adopted its Nov. 8, 2023, Minutes

Drutz said the Working Group met Nov. 8, 2023. During this meeting, the Working Group took the following action: 1) adopted its July 25, 2023, minutes; 2) adopted proposal 2023-11-H (XR014 Fee-For-Service and Other Risk Revenue- Medicare and Medicaid); 3) exposed the American Academy of Actuaries (Academy) Health Care Receivables Presentation; 4) heard an update from the Academy on the H2-Underwriting Risk Review; 5) discussed pandemic risk; 6) discussed the Risk Evaluation Ad Hoc Group; and 7) discussed questions on the 2022 health risk-based capital (RBC) statistics.

Smith made a motion, seconded by Becker, to adopt the Working Group's Nov. 8 (Attachment xx) minutes. The motion passed unanimously.

2. Exposed Proposal 2024-09-CA

Drutz said proposal 2024-09-CA is related to the investment income adjustment in the underwriting risk factors for the comprehensive medical, Medicare supplement, and dental and vision underwriting factors. The investment yield for the six-month U.S. Department of the Treasury (Treasury Department) bond in January ranged from 5.18% to 5.24%, which is included in the proposal. Drutz said that based on the guidance adopted in 2022, any adjustments will be rounded up to the nearest 0.5%, so a 5.5% adjustment was utilized in the factors.

Drutz reminded participants that this proposal will affect all lines of business and suggested that the Working Group expose it first and then refer it to the Capital Adequacy (E) Task Force to re-expose for all lines of business.

Hearing no objections, the Working Group exposed proposal 2024-09-CA for a 32-day comment period ending March 25.

3. Discussed Comments Received on the Academy's Health Care Receivables Presentation

Drutz said the Academy's Health Care Receivables presentation was exposed at the July 25 meeting, and one comment letter was received from UnitedHealth Group (UHG). Jim Braue (UHG) summarized the comment letter (Attachment xx) and discussed its four key points: 1) degree of aggregation of non-pharmacy health care receivables; 2) inclusion of blue blank data; 3) entities with zero collections; and 4) weighting of data points. Braue suggested that the non-pharmacy health care receivables be aggregated and the tiered factor applied to the aggregated amount so there is a single break point for the non-pharmacy categories. Braue said that those companies for whom the receivables are more financially significant will put more effort into collecting them, and companies for whom these receivables are trivial will not put as much expense and effort into collecting them. He said that instead of using each of these receivables as a data point, they could be weighted by their dollar amount,

but even that may not truly represent what is going on because the dollar amount must be viewed relative to the size of the company. Braue said UHG proposes using a weighting system of the data points based on the relationship of the dollar amount of the receivable to the dollar amount of the company's surplus. This would identify how important the receivables are to the company's surplus if those amounts are not collected. He said UHG felt this would provide a truer picture of how likely the company is to collect the receivable.

Kevin Russell (Academy) said that the Academy could aggregate the non-pharmacy health care receivables to see what effect that has. He asked if an aggregated approach would require a structure change to the formula. Crystal Brown (NAIC) said the cleanest and most transparent approach would be a structure change to add a subtotal line for which to apply the factor. David Quinn (Academy) said the proposed factors presented were developed and applied individually, and then the results were shown in the aggregate. He said the breakpoint was $10 million for non-pharmacy rebate health care receivables, and most companies do not have $10 million in those other receivables combined. Quinn said maybe 10% of the companies had more than $10 million. He said that applying the factors individually or combined will yield similar results. Quinn said the reason that they did it by individual line and then looked at the aggregate results for non-pharmacy health care receivables was structural. He said the year-to-year reporting of the health care receivables is stable, so it was not a statistical credibility issue; it was in relation to the existing structure. Russell said that the Academy could also exclude the blue blank data.

Quinn said that each year, there are about 750 companies that report health care receivables in the orange and blue blank, and about 3% are blue blank companies. He said that they do hold an above-average amount of pharmaceutical health care receivables, so even though there are about 3% of the companies, about 20% of the pharmaceutical rebate health care receivables, and a smaller amount of non-pharmacy receivables (about 5%) are reported in the blue blank. Quinn said the analysis looks at how many companies successfully collect on the health care receivable; it is a count of companies with successful collection. He said that since the blue blank makes up only about 3% of those counts, excluding them will have a trivial effect on the analysis. Quinn said that the underlying simulations that came up with the proposed factors did exclude the zero-reporting companies. He said if there was a receivable in the prior year to be collected on and if something was collected, those companies were counted because the Academy was targeting somewhere between 90–95% successful collection under the proposed factors. Russell said the Academy did not have the surplus amounts within the data provided, and traditionally, the calculations had been made on an equal weight. Russell asked if the Working Group wanted the Academy to look at the weighting of data points.

Drutz asked Braue how this could be practically incorporated into the formula. Braue said there are two pieces to it, and working it into the formula would be difficult and require the factors to be calculated in a different way. He said the thought was that the factors would be calculated on that basis and then applied in the same fashion, recognizing that the factors would be most appropriate for the companies with the most significant receivables. He said for some of the trivial receivables—those that are presumably small relative to surplus—the factor would be understated and would not have any real impact on the result. Braue said the thought was that weighting those factors would provide a clearer picture of the collection rates for the receivables that were most significant from a solvency standpoint and less appropriate for receivables where there was not a significant solvency risk.

The Academy agreed to revise the analysis and presentation to address the aggregation of non-pharmacy health care receivables and remove blue blank data. Braue agreed that the Academy's explanation addressed the zero-reporting entities. NAIC staff will set up a call to discuss the weighting of data points with Russell, Quinn, Braue, Drutz, and Richard to determine what type of analysis would be needed. Drutz asked if the Working Group had missed the deadline for 2024. Brown said it depended on how the Working Group wanted to move forward. If the Working Group wanted to apply the factor to an aggregate amount for non-pharmacy health care receivables, it would require a structure change, and the deadline for 2024 was passed. However, if the Working Group only wanted to change the factors and keep the existing structure, the factors would have to be exposed by April 30.

4. Discussed Pandemic Risk

Drutz said the Working Group has discussed whether pandemic risk should be included in the health RBC formula over the last several calls. He said this included a discussion on the previously included interrogatories as well as a presentation on personal consumption expenditures before, during, and after COVID-19. Drutz said a review of the 2014 interrogatories on pandemic and biological risk revealed that only nine companies allocated surplus for pandemic and biological risks, and only seven companies model for it. He said the seven companies were made up of two groups; one group ensured reserves were adequate under a multitude of scenarios, including pandemic risk, and used Monte Carlo simulations to do so. Drutz said the other group made a provision for adverse claims deviation with factors including a moderate pandemic using the Centers for Disease Control and Prevention (CDC) and state health department information. Drutz said the other two companies allocated a component of surplus for pandemic or biological risks but did not use modeling. He said that based on the trends that the Working Group saw from the COVID-19 pandemic, companies did not experience significant losses during the pandemic, as people were not having elective procedures. He said this pent-up demand was later reflected in the subsequent years. Drutz asked Working Group members if RBC can adequately address pandemic risk or if this would be better addressed through the analysis and/or exam processes. Smith said she was unsure if pandemic risk is included in the *Financial Analysis Handbook* or the *Financial Condition Examiners Handbook*. She said it was listed as a concern on the Solvency Monitor Risk Alert but removed in the fall of 2023.

Drutz suggested that the Working Group draft a referral letter to the Financial Analysis Solvency Tools (E) Working Group and the Financial Examiners Handbook (E) Technical Group about how pandemic risk may be best addressed in the analysis and exam process. The Working Group agreed to draft the referral letter and remove pandemic risk from the working agenda.

5. Adopted its Working Agenda

Drutz summarized the updates to the Working Group's 2024 working agenda: 1) line X1 was updated to add exposure of proposal 2024-09-CA; 2) lines X3-X6 were revised to update the expected completion date; 3) line X4 was updated to remove the inquiry item on the Health Care Receivables; and 4) line X7 was deleted based on the discussion of item 4 of today's agenda.

Sherman made a motion, seconded by Smith, to adopt the Working Group's 2024 working agenda (Attachment xx). The motion passed unanimously.

6. Heard an Update from the Academy on the H2 – Underwriting Risk Review

Steve Guzski (Academy) said the Academy is continuing its work on the three tracks: Track 1 is the structure redesign on pages XR013 and XR014; Track 2 is the development of the tiered factors; and Track 3 is the redesign of the managed care credit on page XR018 and XR019. He said Track 2 is engaging in modeling various lines of business, has developed the initial results, and continues to refine those. Guzski said Track 2 meets on at least a weekly basis and that it is still working on final timelines.

Having no further business, the Health Risk-Based Capital (E) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Committees/E CMTE/CADTF/2024-1-Spring/HRBCWG/2-22-24 minutesTPR.docx

Capital Adequacy (E) Task Force

RBC Proposal Form

☒ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**2-12-24**
CONTACT PERSON:	**Crystal Brown**
TELEPHONE:	**816-783-8146**
EMAIL ADDRESS:	**cbrown@naic.org**
ON BEHALF OF:	**Health Risk-Based Capital (E) Working Group**
NAME:	**Steve Drutz**
TITLE:	**Chief Financial Analyst/Chair**
AFFILIATION:	**WA Office of Insurance Commissioner**
ADDRESS:	**5000 Capitol Blvd SE**
	Tumwater, WA 98501

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Agenda Item # 2024-09-CA
Year 2024

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☒ WORKING GROUP (WG) Due 3/25/24
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☒ Life and Fraternal RBC Blanks
☒ Health RBC Instructions ☒ Property/Casualty RBC Instructions ☒ Life and Fraternal RBC Instructions
☐ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Annual update of the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision for investment income adjustment.

Update the underwriting factors for Comprehensive Medical, Medicare Supplement and Dental & Vision on pages XR013, LR020 and PR020 for the investment income adjustment.

Additional Staff Comments:

2-22-24 cgb Exposed for 32-day comment period ending on March 25.
3-25-24 mkc No comment received.

**** This section must be completed on all forms.** **Revised 2-2023**

2024 Investment Yield for Investment Income Adjustment

https://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yield

Date	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
01/02/2024	5.55	5.54	5.46	5.41	5.24	4.80	4.33	4.09	3.93	3.95	3.95	4.25	4.08
01/03/2024	5.54	5.54	5.48	5.41	5.25	4.81	4.33	4.07	3.90	3.92	3.91	4.21	4.05
01/04/2024	5.56	5.48	5.48	5.41	5.25	4.85	4.38	4.14	3.97	3.99	3.99	4.30	4.13
01/05/2024	5.54	5.48	5.47	5.41	5.24	4.84	4.40	4.17	4.02	4.04	4.05	4.37	4.21
01/08/2024	5.54	5.48	5.49	5.39	5.24	4.82	4.36	4.11	3.97	3.99	4.01	4.33	4.17
01/09/2024	5.53	5.46	5.47	5.38	5.24	4.82	4.36	4.09	3.97	4.00	4.02	4.33	4.18
01/10/2024	5.53	5.46	5.46	5.39	5.23	4.82	4.37	4.10	3.99	4.01	4.04	4.35	4.20
01/11/2024	5.54	5.47	5.46	5.38	5.22	4.75	4.26	4.02	3.90	3.95	3.98	4.32	4.18
01/12/2024	5.55	5.47	5.45	5.37	5.16	4.65	4.14	3.92	3.84	3.91	3.96	4.32	4.20
01/16/2024	5.54	5.47	5.45	5.37	5.18	4.70	4.22	4.02	3.95	4.01	4.07	4.43	4.30
01/17/2024	5.54	5.47	5.47	5.40	5.20	4.80	4.34	4.12	4.02	4.07	4.10	4.42	4.31
01/18/2024	5.53	5.48	5.45	5.39	5.20	4.80	4.34	4.13	4.04	4.10	4.14	4.48	4.37
01/19/2024	5.54	5.47	5.45	5.39	5.21	4.84	4.39	4.18	4.08	4.12	4.15	4.47	4.36
01/22/2024	5.53	5.47	5.46	5.39	5.22	4.83	4.37	4.14	4.03	4.07	4.11	4.44	4.32
01/23/2024	5.53	5.46	5.45	5.38	5.21	4.81	4.31	4.16	4.06	4.11	4.14	4.48	4.38
01/24/2024	5.52	5.44	5.44	5.40	5.22	4.83	4.34	4.19	4.06	4.14	4.18	4.52	4.41
01/25/2024	5.54	5.48	5.44	5.39	5.19	4.76	4.28	4.12	4.01	4.07	4.14	4.49	4.38
01/26/2024	5.54	5.45	5.44	5.39	5.19	4.78	4.34	4.15	4.04	4.10	4.15	4.49	4.38
01/29/2024	5.53	5.46	5.42	5.37	5.19	4.76	4.29	4.10	3.97	4.02	4.08	4.42	4.31
01/30/2024	5.53	5.47	5.42	5.38	5.19	4.80	4.36	4.14	4.00	4.03	4.06	4.40	4.28
01/31/2024	5.53	5.46	5.42	5.40	5.18	4.73	4.27	4.05	3.91	3.95	3.99	4.34	4.22

February 2, 2023

Steve Drutz
Chair, Health Risk-Based Capital (E) Working Group
National Association of Insurance Commissioners (NAIC)

Re: Request for Additional Analysis to Incorporate Investment Income into the Underwriting Risk Component of the Health Risk-Based Capital (HRBC) Formula

Dear Mr. Drutz:

On behalf of the American Academy of Actuaries[1] Health Solvency Subcommittee (the subcommittee), I am pleased to provide this response letter to the NAIC's Health Risk-Based Capital (E) Working Group request to provide additional investment return scenarios within the subcommittee's summary of the Investment Income Adjusted Health H2 Experience Fluctuation Risk Factors. These factors are included within the table below.

Investment Income Adjusted Tiered Risk-Based Capital (RBC) Factors

Assumed Investment Return	Comprehensive Medical (CM)	Medicare Supplement	Dental/Vision
	High Tier (i.e., less than $3Million (M) or less than $25M)		
0.0%	15.00%	10.50%	12.00%
3.5%	14.53%	10.01%	11.63%
4.0%	14.47%	9.94%	11.58%
4.5%	14.40%	9.87%	11.53%
5.0%	14.34%	9.80%	11.48%
5.5%	14.27%	9.73%	11.43%
6.0%	14.21%	9.67%	11.38%
	Low Tier		
0.0%	9.00%	6.70%	7.60%
3.5%	8.56%	6.23%	7.25%
4.0%	8.50%	6.16%	7.20%
4.5%	8.44%	6.09%	7.16%
5.0%	8.38%	6.03%	7.11%
5.5%	8.32%	5.96%	7.06%
6.0%	8.25%	5.90%	7.01%

[1] The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

Please note that the subcommittee updated the claims completion pattern assumptions slightly in this analysis. The impact of this change on the RBC factors is approximately 0.01%. Otherwise, the methodology is unchanged.

*****

If you have any questions or would like to discuss further, please contact Matthew Williams, the Academy's senior health policy analyst, at williams@actuary.org.

Sincerely,

Derek Skoog, MAAA, FSA
Chairperson, Health Solvency Subcommittee
American Academy of Actuaries

Cc: Crystal Brown, Senior Health RBC Analyst & Education Coordinator, Financial Regulatory Affairs, NAIC

Health Instructions

Page XR013, Line 13

Detail Eliminated to Conserve Space

Line (13) Underwriting Risk Factor**.** A weighted average factor based on the amount reported in Line (6), Underwriting Risk Revenue. The factors for Column (1) through (3) have incorporated an investment income yield of 5.~~0~~5%.

	$0 – $3 Million	$3 – $25 Million	Over $25 Million
Comprehensive (Hospital & Medical) Individual & Group	0.142734	0.142734	0.08328
Medicare Supplement	0.097380	0.0596603	0.0596603
Dental & Vision	0.11438	0.070611	0.070611
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151
Other Health	0.130	0.130	0.130
Other Non-Health	0.130	0.130	0.130

The investment income yield was incorporated into the Comprehensive (Hospital & Medical) individual & group, Medicare Supplement and Dental & Vision lines of business. The purpose was to incorporate an offset to reduce the underwriting risk factor for investment income earned by the insurer. The Working Group incorporated a 0.5% income yield that was based on the yield of a 6-month US Treasury Bond. Each year, the Working Group will identify the yield of the 6-month Treasury bond (U.S. Department of the Treasury) on each Monday through the month of January and determine if further modifications to the 5.50% adjustment is needed. Any adjustments will be rounded up to the nearest 0.5%.

P/C Instructions

Page PR020, Line 10

Detail Eliminated to Conserve Space

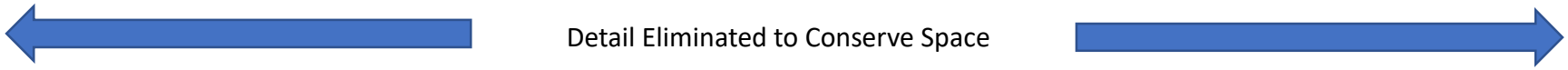
Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue.

	$0 - $3 Million	$3-$25 Million	Over $25 Million
Comprehensive Medical	0.142734	0.142734	0.08328
Medicare Supplement	0.097380	0.0596603	0.0596603
Dental & Vision	0.11438	0.070611	0.070611
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

Life Instructions

LR020, Line 10



Line (10) Underwriting Risk Factor

A weighted average factor based on the amount reported in Line (5), Underwriting Risk Revenue. The factors for Column 1-3 have incorporated investment income.

	$0 - $3 Million	$3 - $25 Million	Over $25 Million
Comprehensive Medical	0.142734	0.142734	0.08328
Medicare Supplement	0.097380	0.0596603	0.0596603
Dental	0.11438	0.070611	0.070611
Stand-Alone Medicare Part D Coverage	0.251	0.251	0.151

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive (Hospital & Medical) - Individual & Group	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Other Health	(6) Other Non-Health	(7) Total
(1) †	Premium							
(2) †	Title XVIII-Medicare		XXX	XXX	XXX	XXX	XXX	
(3) †	Title XIX-Medicaid		XXX	XXX	XXX	XXX	XXX	
(4) †	Other Health Risk Revenue		XXX				XXX	
(5)	Medicaid Pass-Through Payments Reported as Premiums		XXX	XXX	XXX	XXX	XXX	
(6)	Underwriting Risk Revenue = Lines (1) + (2) + (3) + (4) - (5)							
(7) †	Net Incurred Claims						XXX	
(8)	Medicaid Pass-Through Payments Reported as Claims		XXX	XXX	XXX	XXX	XXX	
(9)	Total Net Incurred Claims Less Medicaid Pass-Through Payments Reported as Claims = Lines (7) - (8)						XXX	
(10) †	Fee-For-Service Offset		XXX				XXX	
(11)	Underwriting Risk Incurred Claims = Lines (9) - (10)						XXX	
(12)	Underwriting Risk Claims Ratio = For Column (1) through (5), Line (11)/(6)						1.000	XXX
(13)	Underwriting Risk Factor*					0.130	0.130	XXX
(14)	Base Underwriting Risk RBC = Lines (6) x (12) x (13)							
(15)	Managed Care Discount Factor						XXX	XXX
(16)	RBC After Managed Care Discount = Lines (14) x (15)						XXX	
(17) †	Maximum Per-Individual Risk After Reinsurance						XXX	XXX
(18)	Alternate Risk Charge **						XXX	XXX
(19)	Alternate Risk Adjustment						XXX	XXX
(20)	Net Alternate Risk Charge***						XXX	
(21)	Net Underwriting Risk RBC (MAX{Line (16), Line (20)}) for Columns (1) through (5), Column (6), Line (14)							

TIERED RBC FACTORS*						
	Comprehensive (Hospital & Medical) - Individual & Group	Medicare Supplement	Dental & Vision	Stand-Alone Medicare Part D Coverage	Other Health	Other Non-Health
$0 - $3 Million	**0.142~~34~~**	**0.097~~38~~**	**0.114~~38~~**	0.251	0.130	0.130
$3 - $25 Million	**0.142~~34~~**	**0.0596~~603~~**	**0.0706~~11~~**	0.251	0.130	0.130
Over $25 Million	**0.083~~28~~**	**0.0596~~603~~**	**0.0706~~11~~**	0.151	0.130	0.130

ALTERNATE RISK CHARGE**

** The Line (18) Alternate Risk Charge is calculated as follows:						
LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	N/A

Denotes items that must be manually entered on filing software.

† The Annual Statement Sources are found on page XR014.

* This column is for a single result for the Comprehensive Medical & Hospital, Medicare Supplement and Dental/Vision managed care discount factor.

*** Limited to the largest of the applicable alternate risk adjustments, prorated if necessary.

UNDERWRITING RISK - PREMIUM RISK FOR COMPREHENSIVE MEDICAL, MEDICARE SUPPLEMENT AND

(Experience Fluctuation Risk in Life RBC Formula)

		(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) TOTAL
(1.1)	Premium – Individual	0	0	0	0	0
(1.2)	Premium – Group	0	0	0	0	0
(1.3)	Premium – Total = Line (1.1) + Line (1.2)	0	0	0	0	0
(2)	Title XVIII-Medicare†	0	XXX	XXX	XXX	0
(3)	Title XIX-Medicaid†	0	XXX	XXX	XXX	0
(4)	Other Health Risk Revenue†	0	XXX	0	0	0
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)	0	0	0	0	0
(6)	Net Incurred Claims	0	0	0	0	0
(7)	Fee-for-Service Offset†	0	XXX	0	0	0
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)	0	0	0	0	0
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)	0.0000	0.0000	0.0000	0.000	XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	**0.142~~34~~**	**0.0973~~8~~**	**0.1143~~8~~**	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	**0.0832~~8~~**	**0.0596~~603~~**	**0.0706~~11~~**	0.151	XXX
(10.3)	Composite Underwriting Risk Factor	0.0000	0.0000	0.0000	0.000	XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)	0	0	0	0	0
(12)	Managed Care Discount Factor = PR021 Line (12)	0.0000	0.0000	0.0000	0.000	XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)	0	0	0	0	0
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§	0	0	0	0	0
(15)	Maximum Per-Individual Risk After Reinsurance†	0	0	0	0	XXX
(16)	Alternate Risk Charge*	0	0	0	0	0
(17)	Net Alternate Risk Charge£	0	0	0	0	0
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))	0	0	0	0	0

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision the Initial Premium Amount is $3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller.

§ Formula applies only to Column (1), for all other columns Line (14) should equal Line (13).

* The Line (16) Alternate Risk Charge is calculated as follows:

LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2) (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

Denotes items that must be manually entered on the filing software.

UNDERWRITING RISK

Experience Fluctuation Risk

	Line of Business	(1) Comprehensive Medical	(2) Medicare Supplement	(3) Dental & Vision	(4) Stand-Alone Medicare Part D Coverage	(5) Total
(1.1)	Premium – Individual					
(1.2)	Premium – Group					
(1.3)	Premium – Total = Line (1.1) + Line (1.2)					
(2)	Title XVIII-Medicare†		XXX			
(3)	Title XIX-Medicaid†		XXX			
(4)	Other Health Risk Revenue†		XXX			
(5)	Underwriting Risk Revenue = Lines (1.3) + (2) + (3) + (4)					
(6)	Net Incurred Claims					
(7)	Fee-for-Service Offset†		XXX			
(8)	Underwriting Risk Incurred Claims = Line (6) – Line (7)					
(9)	Underwriting Risk Claims Ratio = Line (8) / Line (5)					XXX
(10.1)	Underwriting Risk Factor for Initial Amounts Of Premium‡	**0.142~~34~~**	**0.0973~~8~~**	**0.1143~~8~~**	0.251	XXX
(10.2)	Underwriting Risk Factor for Excess of Initial Amount‡	**0.0832~~8~~**	**0.0596~~603~~**	**0.0706~~11~~**	0.151	XXX
(10.3)	Composite Underwriting Risk Factor					XXX
(11)	Base Underwriting Risk RBC = Line (5) x Line (9) x Line (10.3)					
(12)	Managed Care Discount Factor = LR022 Line (17)					XXX
(13)	Base RBC After Managed Care Discount = Line (11) x Line (12)					
(14)	RBC Adjustment For Individual = [{Line(1.1) x 1.2 + Line (1.2)} / Line (1.3)] x Line (13)§					
(15)	Maximum Per-Individual Risk After Reinsurance†					XXX
(16)	Alternate Risk Charge*					
(17)	Net Alternate Risk Charge£					
(18)	Net Underwriting Risk RBC (Maximum of Line (14) or Line (17))					

† Source is company records unless already included in premiums.

‡ For Comprehensive Medical, the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller. For Medicare Supplement and Dental & Vision, the Initial Premium Amount is $3,000,000 or the amount in Line (1.3) if smaller. For Stand-Alone Medicare Part D, the Initial Premium Amount is $25,000,000 or the amount in Line (1.3) if smaller.

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LESSER OF:	$1,500,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$50,000 or 2 x Maximum Individual Risk	$150,000 or 6 x Maximum Individual Risk	Maximum of Columns (1), (2), (3) and (4)

£ Applicable only if Line (16) for a column equals Line (16) for Column (5), otherwise zero.

Denotes items that must be manually entered on the filing software.

Health Care Receivables
Current and Proposed H3 Factors (Alternate)

David A. Quinn, MAAA, FSA

Member, Health Care Receivables Factors Work Group

American Academy of Actuaries

Presentation to the National Association of Insurance Commissioners (NAIC)

Health Risk-Based Capital (E) Working Group

April 16, 2024

About the Academy

- The American Academy of Actuaries is a 20,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues.
- The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

For more information, please visit:

www.actuary.org

Alternate

- This deck is a modified copy of the publicly available November 8, 2023, presentation
- The results contained within this presentation are a work in progress and should not be relied upon in draft form.
- It has two principal differences from the November 8, 2023, version
  - (1) Data from Life, Accident & Health, and Fraternal (Blue Blank) companies are omitted—Only Orange Blank data now
  - (2) Non-Rx HCR are aggregated and treated as one type of HCR instead of five separate HCRs
- An alternative weighting—based on the size of the HCR relative to the company's capital and surplus—was considered
- New slides are inserted to show the difference from the November 8 numbers and use a pink font color

Setting the Context

Authorized Control Level

- NAIC Risk-Based Capital Formula

Health Care Receivables (HCR)

- Part of the H3 Credit Risk
- Factors applied to all HCR assets are a part of the H3 result

Credit Risk

$$\$Authorized\ Control\ Level = 1.03 \times \frac{H0 + \sqrt{(H1^2 + H2^2 + H3^2 + H4^2)}}{2}$$

Applying HCR Factors

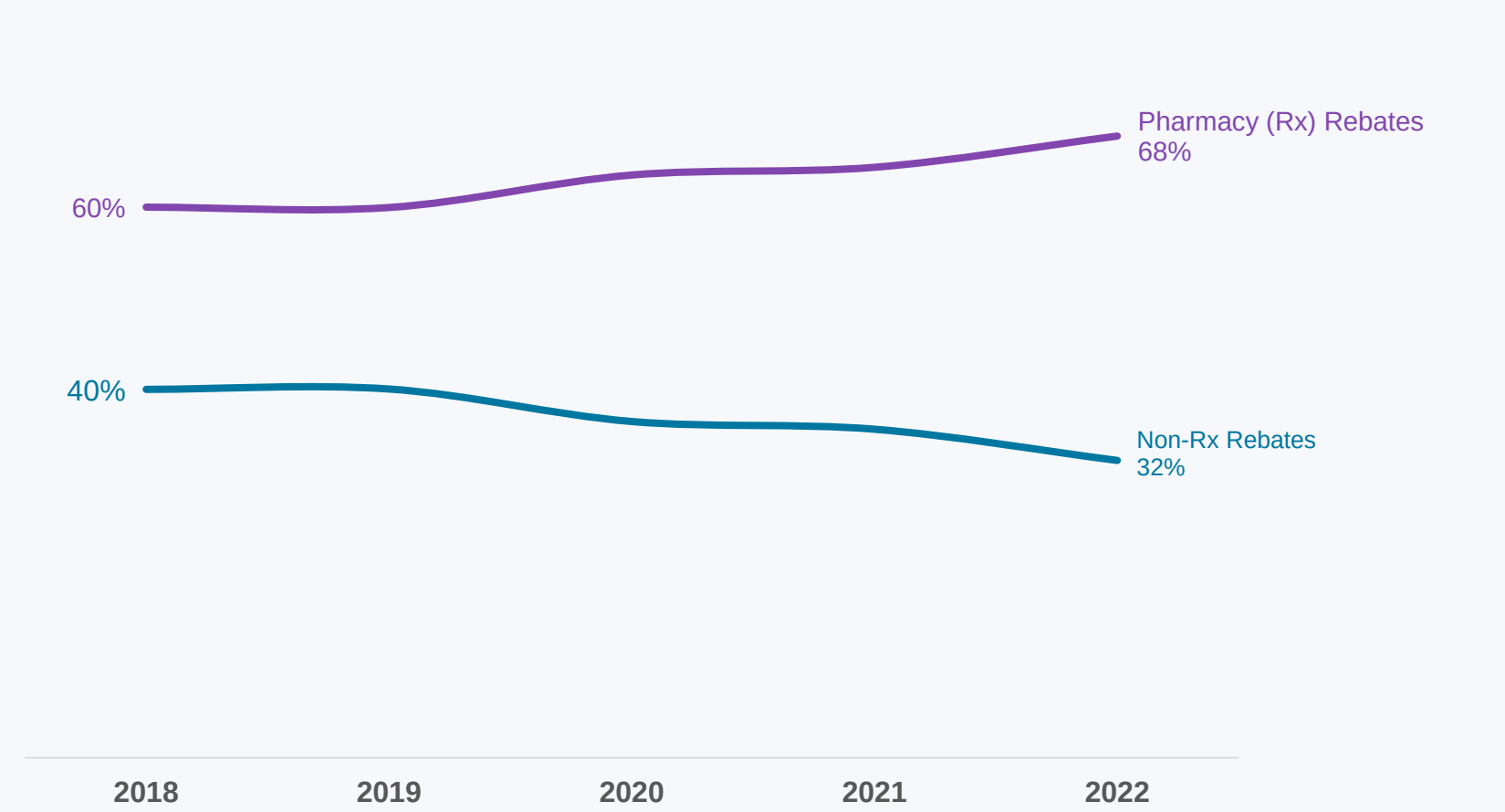
HCR Factors

- Vary by Pharmaceutical Rebates or Non-Pharmaceutical Rebates

HCR Type	Factor (Current)
Pharmaceutical (Rx) Rebate Receivables	0.05
Claim Overpayment Receivables	0.19
Loans and Advances to Providers	0.19
Capitation Arrangement Receivables	0.19
Risk Sharing Receivables	0.19
Other Health Care Receivables	0.19

Non-Pharmaceutical Rebates Receivables

HCR Dollar Distributions (Only Orange Blanks)



Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Collecting HCRs

$$Collection\ Ratio = \frac{Surplus\ Component_{t-1} + Collections_t}{Admitted\ HCR\ Assets_{t-1}}$$

- *Surplus Component*, prior year: Factors multiplied by admitted assets
- *Collections*, current year: Exhibit 3A Column 5 "Health Care Receivables in Prior Years (Columns 1 + 3)"
  - To clarify: includes collections made against non-admitted assets, as it did in the November 8 version
- *Admitted HCR Assets*, prior year: Exhibit 3 Column 7 "Admitted"
- *Collection Ratio*: Goal is for a company to collect ≥100%
- See Appendix A for exhibit layouts and column names

Collecting HCRs (Year)

Year (Rx Rebates HCR)	Company Count	Collection Ratio ≥100%
2019	519	87%
2020	559	83%
2021	621	86%
2022	655	84%

Year (Non-Rx Rebates HCR)	Company Count	Collection Ratio ≥100%
2019	366	85%
2020	402	79%
2021	411	81%
2022	440	79%

Data: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

2018 is prior year input for 2019 results, so the table begins with 2019

Collecting HCRs (Year)

Year (Rx Rebates HCR)	Company Count	Collection Ratio ≥100%
2019	0	0%
2020	0	0%
2021	0	0%
2022	−19	1%

Year (Non-Rx Rebates HCR)	Company Count	Collection Ratio ≥100%
2019	0	0%
2020	0	0%
2021	0	0%
2022	−17	0%

Difference from prior version (November 8, 2023)

Collecting HCRs (Size)

- Each company has an HCR size by year for this analysis
- HCR size "Small" if total HCR <$1 million, "Large" if ≥$10 million, "Medium" otherwise
- HCR <$0 were then excluded (rare) and HCR =$0 were excluded (common)

Size (Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	111	79%
Medium	214	84%
Large	257	89%

Size (Non-Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	57	81%
Medium	136	79%
Large	205	84%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Collecting HCRs (Size)

Size (Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	−1	0%
Medium	−2	0%
Large	−2	0%

Size (Non-Rx Rebates HCR)	Company Count Four-year Avg.	Collection Ratio ≥100%
Small	−2	1%
Medium	−1	0%
Large	−1	0%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Difference from prior version (November 8, 2023)

Tiering HCR Factors

Proposed tiered HCR factors

- Smaller HCR-sized companies hold more surplus component
- Give larger HCR-sized companies credit for observed stability (higher counts of Collection Ratios ≥100%)

HCR Type	Current Factor	Tier 1 Factor	Tier Cutoff	Tier 2 Factor
Rx Rebate Receivables	0.05	0.20	$5 Million	0.03
All Non-Rx Rebate Receivables	0.19	0.40	$10 Million	0.05

Collecting HCRs (Year Revisited)

Improved Collection Ratio (CR) by year

Year (Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
2019	87%	91% (+4%)
2020	83%	87% (+4%)
2021	86%	89% (+3%)
2022	84%	88% (+4%)

Year (Non-Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
2019	85%	87% (+2%)
2020	79%	81% (+2%)
2021	81%	84% (+3%)
2022	79%	82% (+3%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Collecting HCRs (Year Revisited)

Difference from prior version (November 8, 2023)

Year (Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
2019	0%	0% (+0%)
2020	0%	0% (+0%)
2021	0%	0% (+0%)
2022	1%	0% (–1%)

Year (Non-Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
2019	0%	0% (+0%)
2020	0%	0% (+0%)
2021	0%	0% (+0%)
2022	0%	0% (+0%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Collecting HCRs (Size Revisited)

Improved collection by HCR size

Size (Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
Small	79%	85% (+6%)
Medium	84%	90% (+6%)
Large	89%	90% (+1%)

Size (Non-Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
Small	81%	82% (+1%)
Medium	79%	82% (+3%)
Large	84%	85% (+1%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Collecting HCRs (Size Revisited)

Difference from prior version (November 8, 2023)

Size (Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
Small	0%	0% (+0%)
Medium	0%	0% (+0%)
Large	0%	0% (+0%)

Size (Non-Rx Rebates HCR)	CR ≥100% (Current Factors)	CR ≥100% (Proposed Factors)
Small	1%	1% (+0%)
Medium	0%	−1% (−1%)
Large	0%	−1% (−1%)

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

First Proposed Tier Factors

- Which combinations of factors and tier cutoffs work?
- Monte Carlo simulation

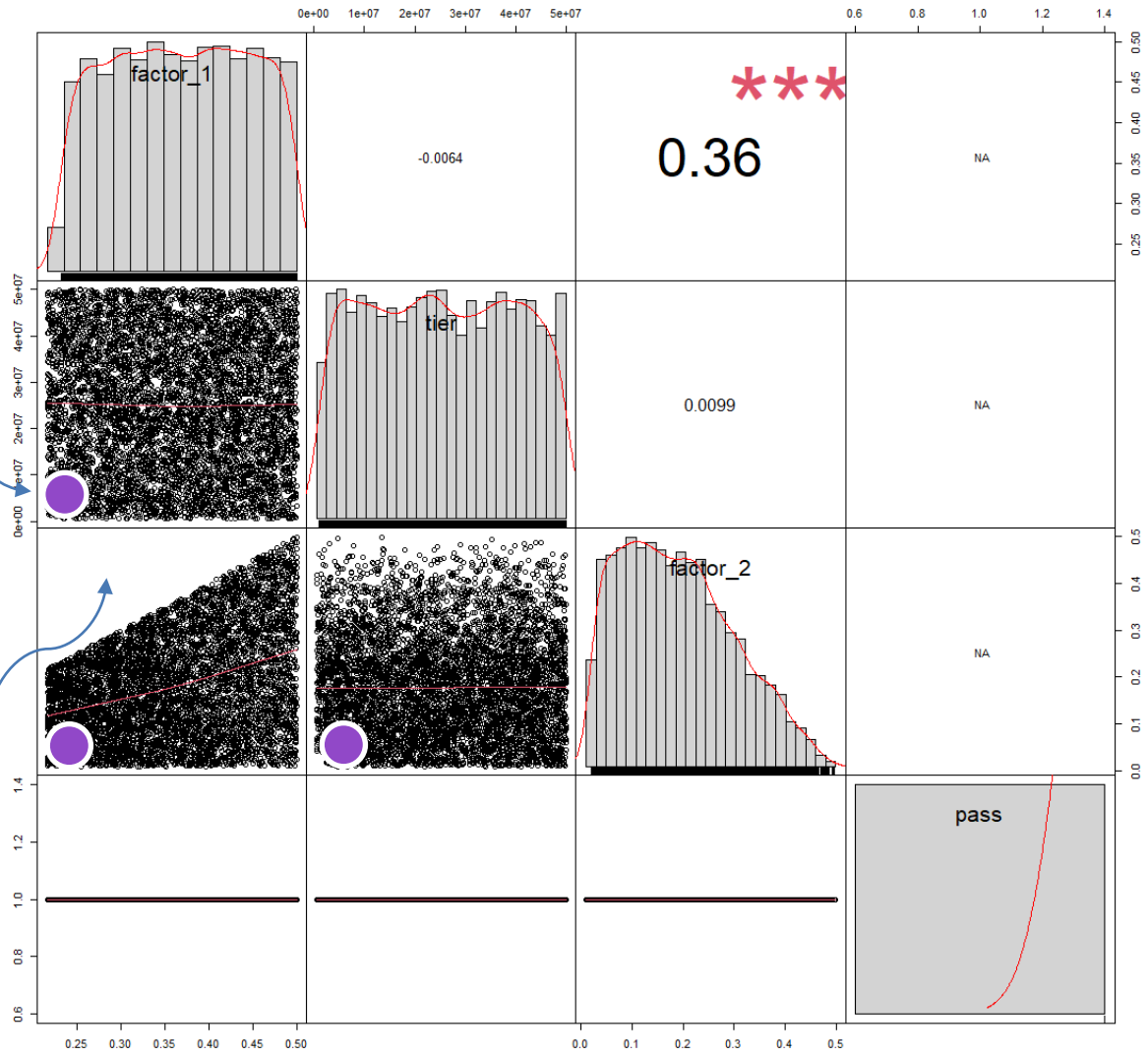
First Proposed Tier Factors

- Goal of percent of companies meeting Collection Ratios ≥100%
  - 90%–100% for Rx HCR
  - 90%–100% for Non-Rx HCR
    - For 10 or more of the 15 size and line combinations (3x sizes by 5x Non-Rx HCR types)
    - Acknowledge variance in reporting accuracy (more on this later)
- Many combinations of factors and tier cutoffs work
  - There's flexibility in the final factors and tier cutoff
  - Each black dot on the next charts is a possible solution

Proposed Factors and Tiers (Rx Rebate HCR)

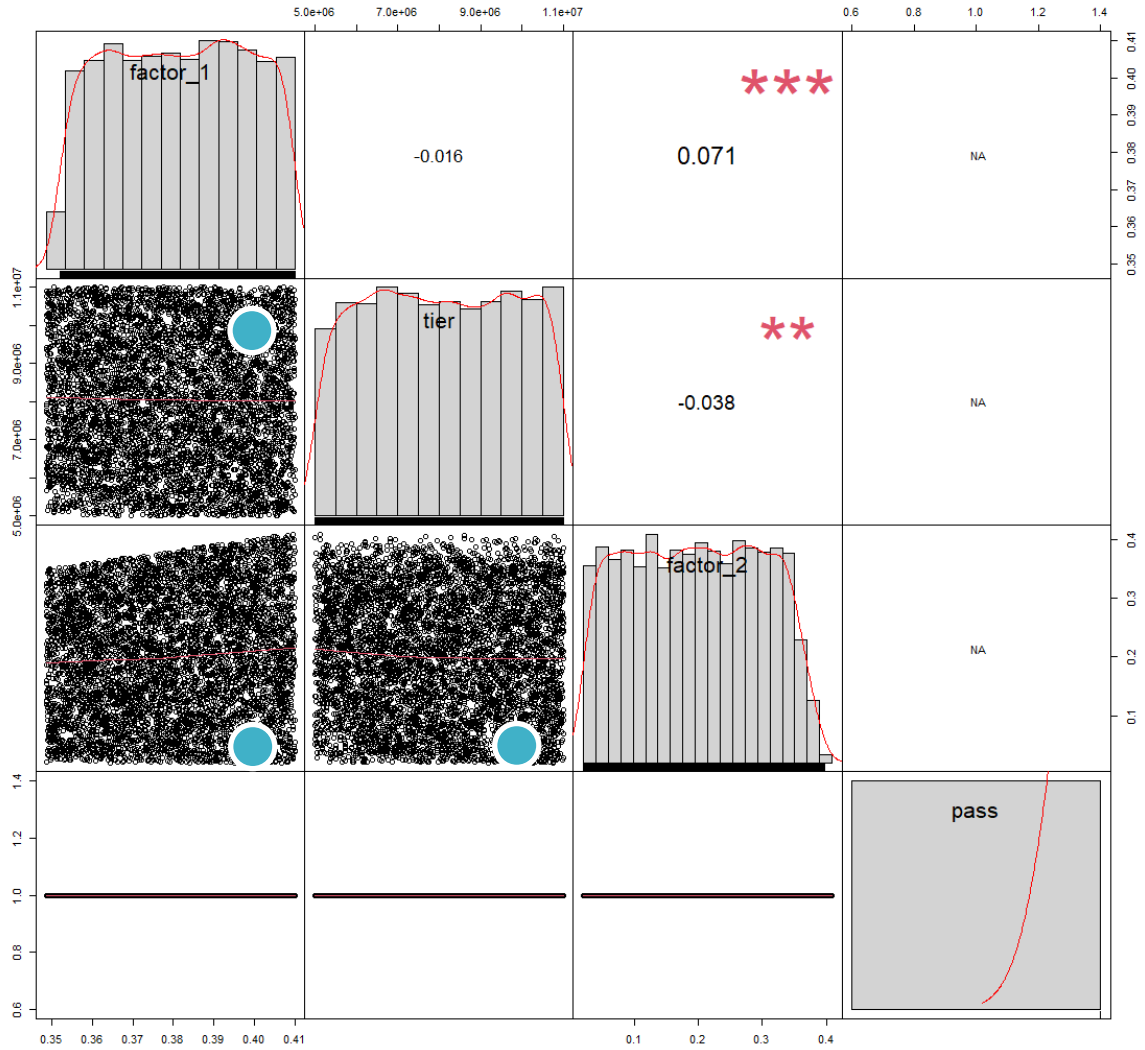
Proposed factors, tiers

Simulation assumes Factor 1 < Factor 2

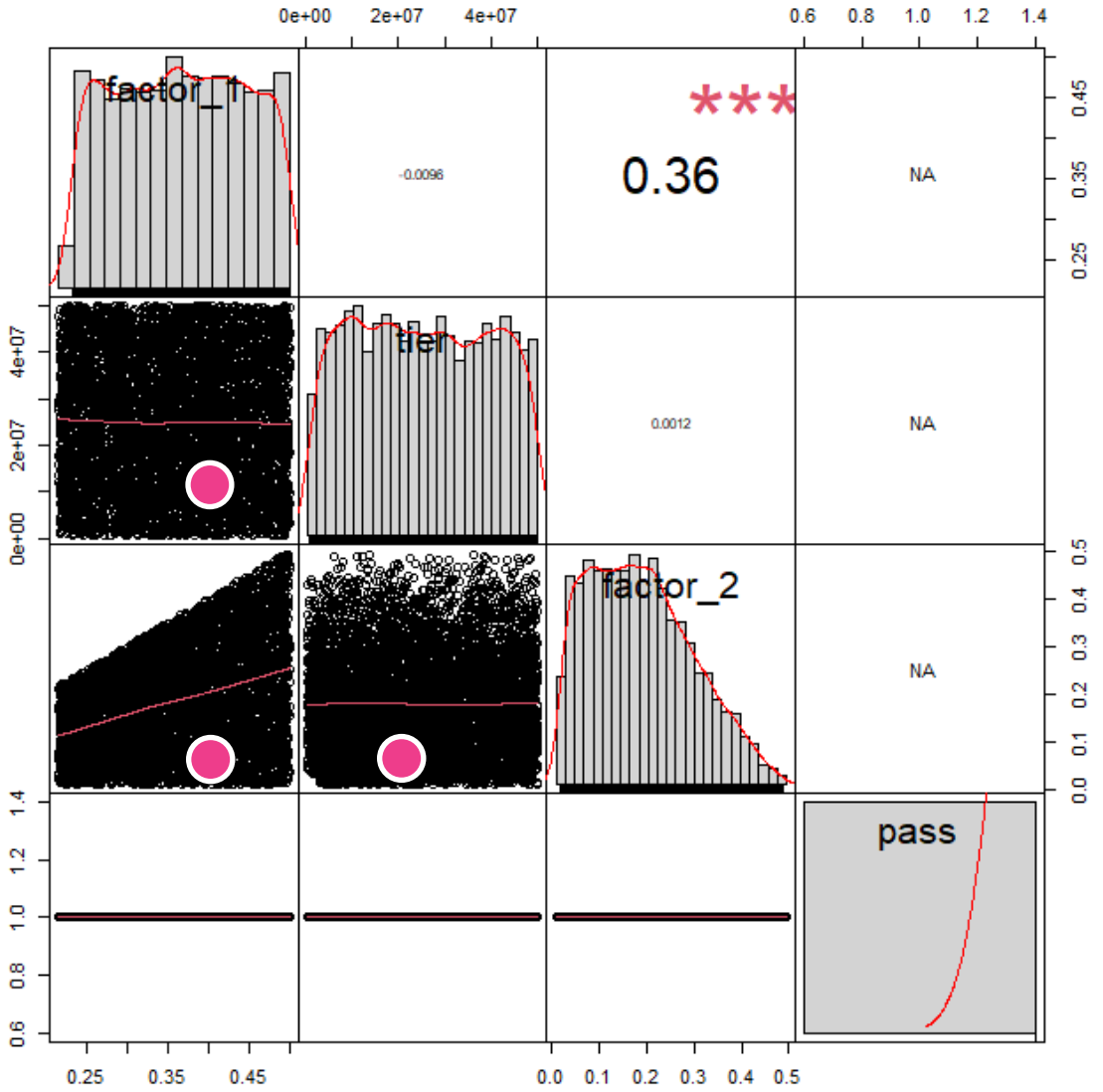


Proposed Factors and Tiers (Non-Rx Rebates HCR)

Attachment 3



Proposed Factors and Tiers (Non-Rx Rebates HCR)



Limitations and Considerations

- Recommendation subject to approval and comment
- Reporting Accuracy
  - Parity between prior year Exhibit 3 and current year Exhibit 3A
    - A company may establish a prior HCR but collect on it in a way not reported in Exhibit 3A
- HCR Size
  - Many combinations of tiers and tier cutoffs
    - Smaller tier threshold, higher factor
  - Proposed factors will have variable impacts on companies

Surplus Component Change in H3 (Proposal)

2022 Data

HCR Type	Co. with an *Increased* H3 (+)	Co. with a *Decreased* H3 (-)	Avg. Relative Change in H3 (+)	Avg. Relative Change in H3 (-)	Largest Magnitude Relative Change (+)	Largest Magnitude Relative Change (-)
Rx Rebate HCR	89%	11%	+241%	−19%	+300%	−38%
Non-Rx Rebates HCR	88%	12%	+106%	−29%	+111%	−70%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Surplus Component Change in H3 (Proposal)

Difference from November 8, 2023

HCR Type	Co. with an *Increased* H3 (+)	Co. with a *Decreased* H3 (–)	Avg. Relative Change in H3 (+)	Avg. Relative Change in H3 (–)	Largest Magnitude Relative Change (+)	Largest Magnitude Relative Change (–)
Rx Rebate HCR	0%	0%	+1%	+1%	0%	+1%
Non-Rx Rebates HCR	–3%	+3%	+1%	–15%	0%	–1%

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Surplus Component Change in H3

Rx Rebate HCR (2022)

Rx Rebate HCR ($ Millions)	H3 Surplus *Before* Proposal	H3 Surplus *After* Proposal	Difference
If an Increase (+)	$167	$350	$183
If a Decrease (–)	$484	$351	–$133
Total	$651	$701	$50

Surplus Component Change in H3

Difference from prior version (November 8, 2023)

Rx Rebate HCR ($ Millions)	H3 Surplus *Before* Proposal	H3 Surplus *After* Proposal	Difference
If an Increase (+)	–$21	–$35	–$14
If a Decrease (–)	–$296	–$184	+$112
Total	–$317	–$219	+$98

Surplus Component Change in H3

Non-Rx Rebate HCR (2022)

Non-Rx Rebate HCR ($ Millions)	H3 Surplus *Before* Proposal	H3 Surplus *After* Proposal	Difference
If an Increase (+)	$203	$371	$168
If a Decrease (–)	$750	$369	–$381
Total	$953	$740	–$213

Surplus Component Change in H3

Difference from prior version (November 8, 2023)

Non-Rx Rebate HCR ($ Millions)	H3 Surplus *Before* Proposal	H3 Surplus *After* Proposal	Difference
If an Increase (+)	–$123	–$180	–$57
If a Decrease (–)	+$120	+$40	–$80
Total	–$3	–$140	–$137

Weighting Companies

Idea from public comments to use the HCR as a percent of capital and surplus as a weight (POCS)

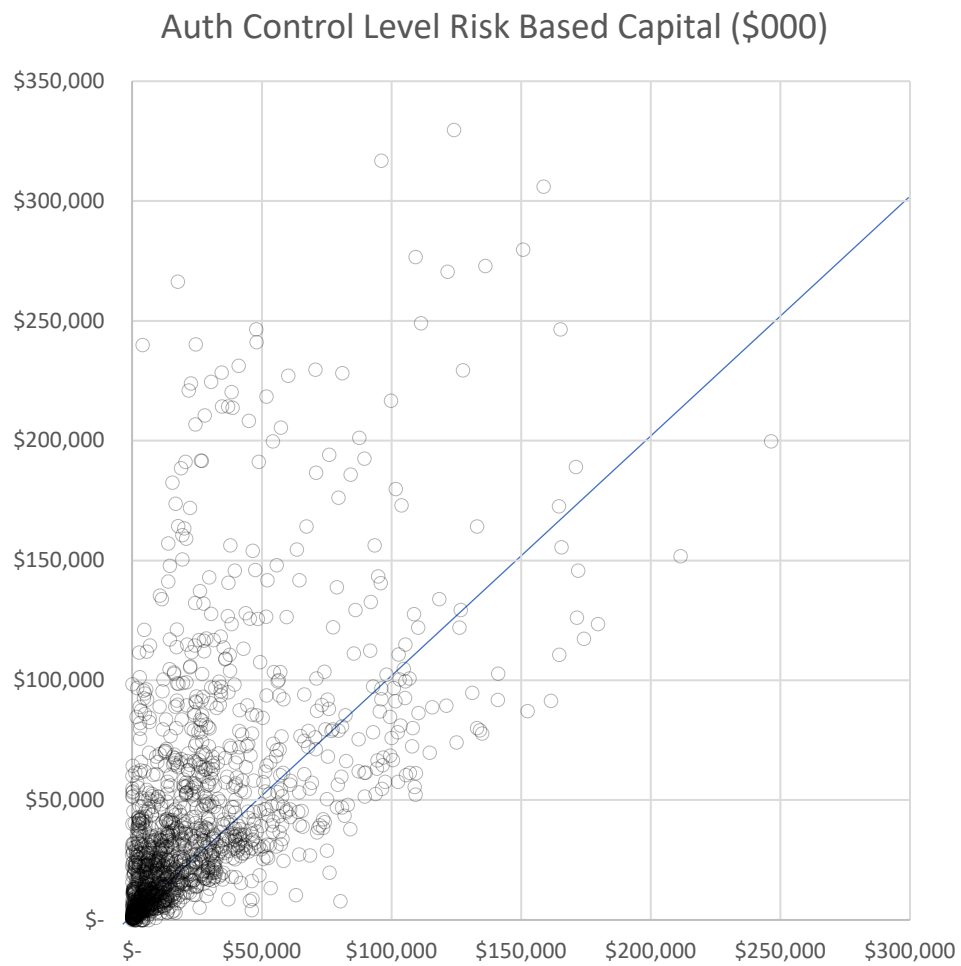
- Hypothesis: Companies with higher POCS are more motivated to collect

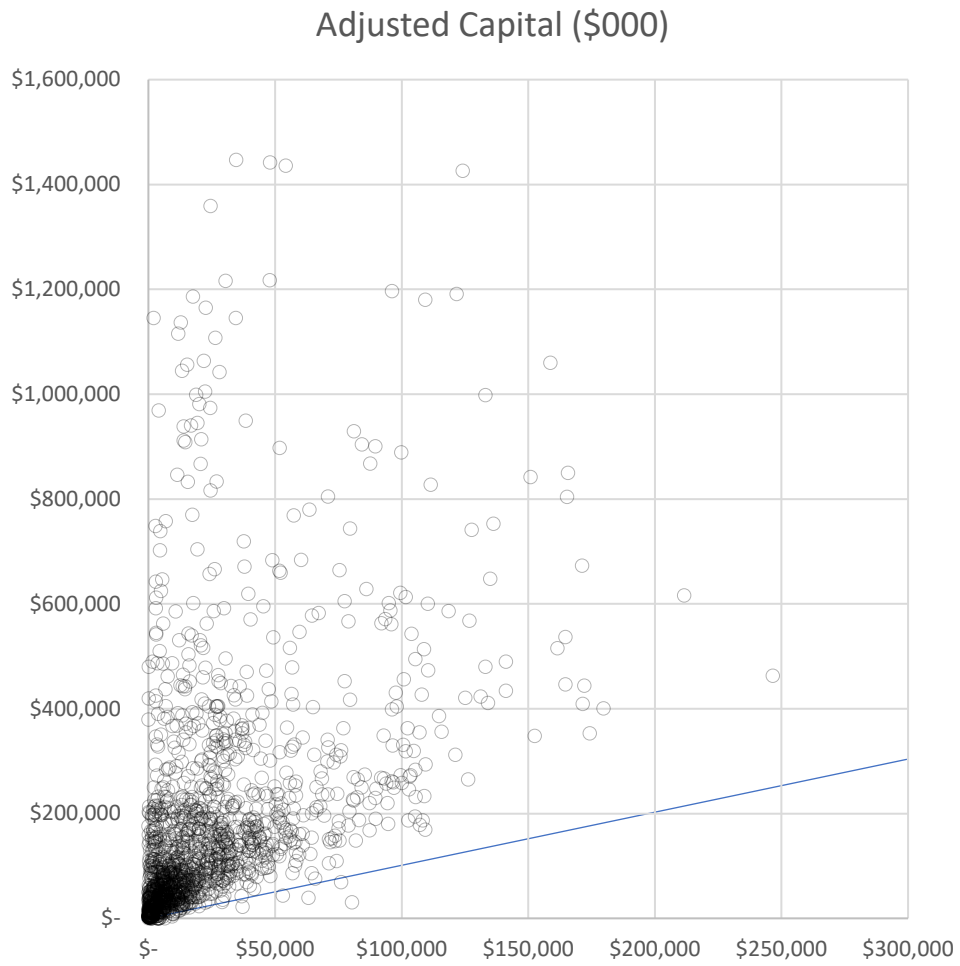
Exhibit 3, Exhibit 3A, and Underwriting and Investment (U&I) Exhibit Part 2B do not show the capital and surplus amounts

- However, U&I Part 2B has claims (row 9) and HCR amounts (row 10)
  - Use HCR as a percentage of claims as a proxy for POCS
  - Estimated Claims Reserve and Claims Liability December 31 of Prior Year (column 6)

Weighting Companies

2022 SOA Medicaid Underwriting Margin Model

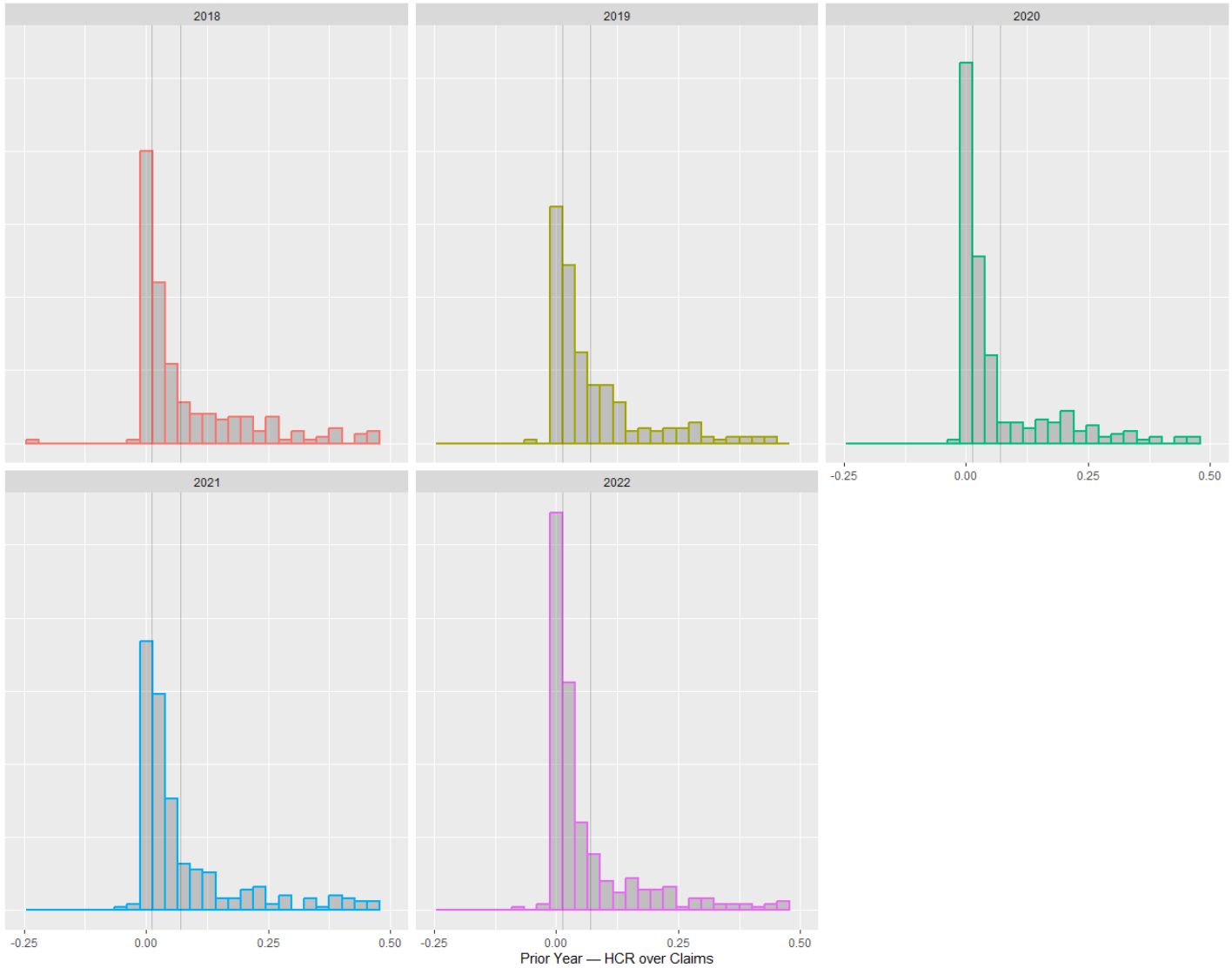




Medicaid NAIC data 2013–2020
(x-axis: medical loss in thousands)

Weighting Companies

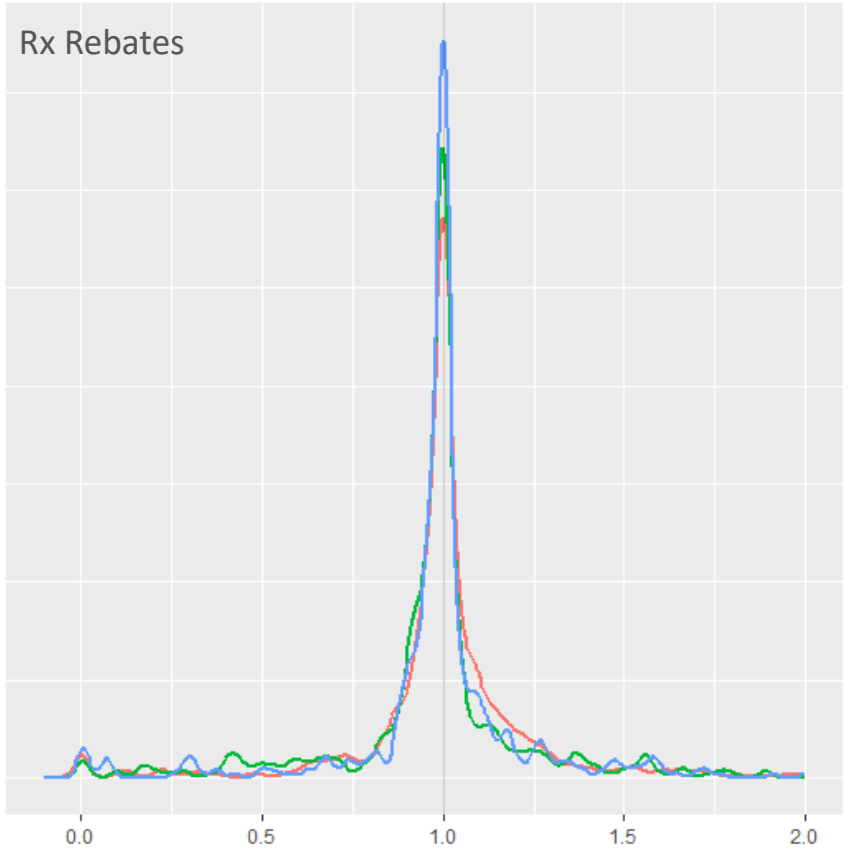
- Only Orange Blank
- **HCR dollars as percent of Claims by year**
  - x-axis
  - Net of reinsurance
- Consistent distribution by year
  - Small: 0%–1.25%
  - Medium: 1.25%–7.00%
  - Large: >7.00%



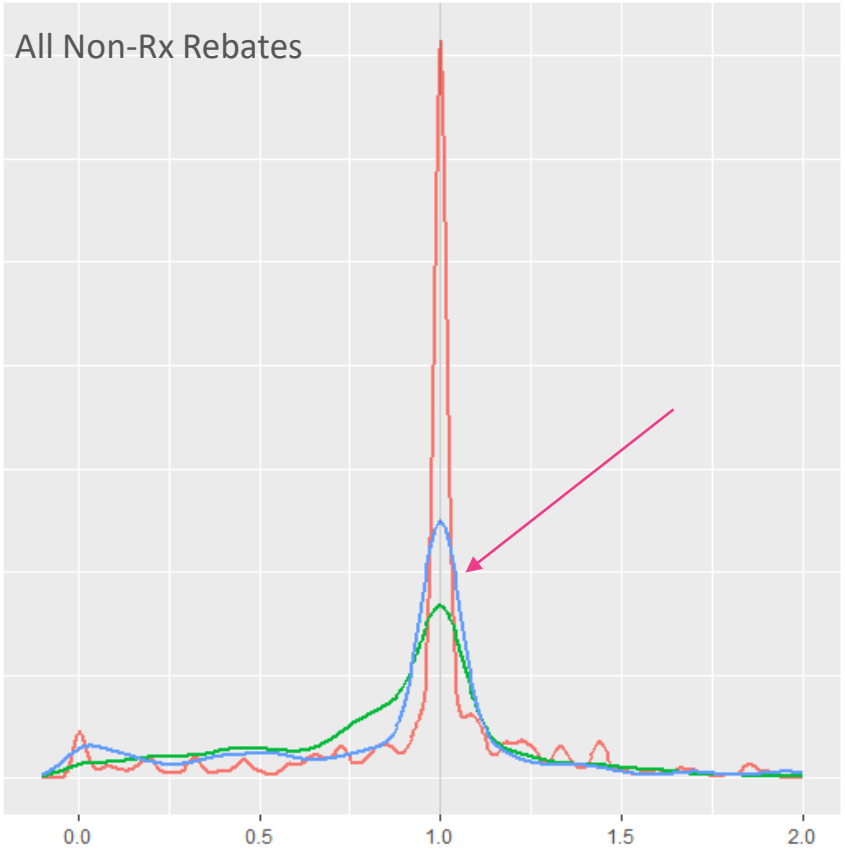
Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Weighting Companies

- Lacks increasing collection results as HCR as a percent of claims (a POCS proxy) increases
  - Propose *not* weighting by HCR as a POCS



Collection ratios without surplus



Collection ratios without surplus

Source: NAIC Annual Health Filings (Orange Blank) 2018–2022, for companies with established receivables

Appendix A: Exhibit 3, Exhibit 3A Examples

EXHIBIT 3 – HEALTH CARE RECEIVABLES

ANNUAL STATEMENT FOR THE YEAR 2013

1 Name of Debtor	2 1 – 30 Days	3 31 – 60 Days	4 61 – 90 Days	5 Over 90 Days	6 Non-admitted	7 Admitted
Pharmaceutical rebate receivables Claim overpayment receivables Loans and advances to providers Capitation arrangement receivables Risk sharing receivables Other receivables						
Gross health care receivables					R6	R7

EXHIBIT 3A – ANALYSIS OF HEALTH CARE RECEIVABLES COLLECTED AND ACCRUED

Type of Health Care Receivable	Health Care Receivables Collected During the Year		Health Care Receivables Accrued as of December 31 of Current Year		5	6
	1 On Amounts Accrued Prior to January 1 of Current Year	2 On Amounts Accrued During the Year	3 On Amounts Accrued December 31 of Prior Year	4 On Amounts Accrued During the Year	Health Care Receivables in Prior Years (Columns 1 + 3)	Estimated Health Care Receivables Accrued as of December 31 of Prior Year
1. Pharmaceutical rebate receivables 2. Claim overpayment receivables 3. Loans and advances to providers 4. Capitation arrangement receivables 5. Risk sharing receivables 6. Other health care receivables						
7. Totals (Lines 1 through 6)			A3 = B1 + B3	A4 = B2 + B4		A6 = Prior Yr(R6+R7)

Appendix B: U&I Part 2B

UNDERWRITING AND INVESTMENT EXHIBIT

ANNUAL STATEMENT FOR THE YEAR 2013

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical) 2. Medicare Supplement 3. Dental 4. Vision 5. Federal Employees Health Benefits Plan 6. Title XVIII - Medicare 7. Title XIX - Medicaid 8. Other health						
9. Health subtotal (Lines 1 to 8)						
10. Health care receivables (a)	B1	B2	B3	B4		B6 = Prior Yr(R6+R7)
11. Other non-health						
12. Medical incentive pools and bonus amounts						
13. Totals (Lines 9−10+11+12)						

(a) excludes _____ loans or advances to providers not yet expensed

B1 + B2 + B3 + B4 = R6 + R7 [assumes no amounts in the 10(a) footnote]

Questions?

Thank You

For more information, please contact

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American Academy of Actuaries

williams@actuary.org

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☒ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ P/C RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ Variable Annuities Capital. & Reserve (E/A) Subgroup ☐ Economic Scenarios (E/A) Subgroup ☐ RBC Investment Risk & Evaluation (E) Working Group

DATE:	**3-19-24**
CONTACT PERSON:	**Maggie Chang**
TELEPHONE:	**816-783-8976**
EMAIL ADDRESS:	**mchang@naic.org**
ON BEHALF OF:	**Health Risk-Based Capital (E) Working Group**
NAME:	**Steve Drutz**
TITLE:	**Chief Financial Analyst/Chair**
AFFILIATION:	**WA Office of Insurance Commissioner**
ADDRESS:	**5000 Capitol Blvd SE**
	Tumwater, WA 98501

FOR NAIC USE ONLY

Agenda Item # 2024-12-H
Year 2024

DISPOSITION

ADOPTED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

EXPOSED:
☐ TASK FORCE (TF) _____
☐ WORKING GROUP (WG) _____
☐ SUBGROUP (SG) _____

REJECTED:
☐ TF ☐ WG ☐ SG _____

OTHER:
☐ DEFERRED TO _____
☐ REFERRED TO OTHER NAIC GROUP
☐ (SPECIFY) _____

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☒ Health RBC Blanks ☐ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Blanks
☒ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Instructions
☒ Health RBC Formula ☐ Property/Casualty RBC Formula ☐ Life and Fraternal RBC Formula
☐ OTHER _____

DESCRIPTION/REASON OR JUSTIFICATION OF CHANGE(S)

Adjust the health care receivable factors in XR021 to include a tiered adjustment.

Additional Staff Comments:

**** This section must be completed on all forms.** **Revised 2-2023**

Other Receivables – L(25) through L(31)

There is an RBC requirement of 1 percent of the annual statement amount of investment income receivable and an RBC requirement of 5 percent of the annual statement amount for ~~pharmaceutical rebates and~~ amounts due from parents, subsidiaries, and affiliates, and aggregate write-ins for other than invested assets. The RBC requirement for pharmaceutical rebates is 20 percent of the first $5 million and a 3 percent charge will be applied to the amount in excess. ~~and a~~An RBC requirement of ~~19~~ 40 percent ~~of~~is applied to the first $10 million of the annual statement amount and 5 percent will be applied to the amounts in excess of the $10 million ~~the annual statement amount~~ for all other health care receivables reported in Lines (26.2) through (26.6). Enter the appropriate value in Lines (25) through (31).

Line (26.1). Pharmaceutical rebates are arrangements between pharmaceutical companies and reporting entities in which the reporting entities receive rebates based upon the drug utilization of its subscribers at participating pharmacies. These rebates are sometimes recorded as receivables by reporting entities using estimates based upon historical trends which should be adjusted to reflect significant variables involved in the calculation, such as number of prescriptions written/filled, type of drugs prescribed, use of generic vs. brand-name drugs, etc. In other cases, the reporting entity determines the amount of the rebate due based on the actual use of various prescription drugs during the accumulation period and then bills the pharmaceutical company. Oftentimes, a pharmacy benefits management company may determine the amount of the rebate based on a listing (of prescription drugs filled) prepared for the reporting entity's review. The reporting entity will confirm the listing and the pharmaceutical rebate receivable. Pharmaceutical rebates may relate to insured plans or uninsured plans. Only the receivable amount related to the insured plans should be reported on this line. Amount comes from annual statement Exhibit 3, Column 7, Line 0199999**.**

Line (26.2). Claim overpayments may occur as a result of several events, including but not limited to claim payments made in error to a provider. Reporting entities often establish receivables for claim overpayments. Amount comes from annual statement Exhibit 3, Column 7, Line 0299999**.**

Line (26.3). A health entity may make loans or advances to large hospitals or other providers. Such loans or advances are supported by legally enforceable contracts and are generally entered into at the request of the provider. In many cases, loans or advances are paid monthly and are intended to represent one month of fee-for-service claims activity with the respective provider. Amount comes from annual statement Exhibit 3, Column 7, Line 0399999.

Line (26.4). A capitation arrangement is a compensation plan used in connection with some managed care contracts in which a physician or other medical provider is paid a flat amount, usually on a monthly basis, for each subscriber who has elected to use that physician or medical provider. In some instances, advances are made to a provider under a capitation arrangement in anticipation of future services. Amount comes from annual statement Exhibit 3, Column 7, Line 0499999**.**

Line (26.5). Risk sharing agreements are contracts between reporting entities and providers with a risk sharing element based upon utilization. The compensation payments for risk sharing agreements are typically estimated monthly and settled annually. These agreements can result in receivables due from the providers if annual utilization is different than that used in estimating the monthly compensation. Amount comes from annual statement Exhibit 3, Column 7, Line 0599999.

Line (26.6)**.** Any other health care receivable not reported in Lines (26.1) through (26.5). Amount comes from annual statement Exhibit 3, Column 7, Line 0699999.

Line (27). Only include on this line amounts receivable related to pharmaceutical rebates on uninsured plans that are in excess of the liability estimated by the reporting entity for the portion of such rebates due to the uninsured accident and health plans.

Other Receivables		Annual Statement Source	(1) Amount	Factor	(2) RBC Requirement	
(25)	Investment Income Receivable	Page 2, Column 3, Line 14		0.010	$0	
(26)	Health Care Receivables	Exhibit 3, Column 7, Line 0799999				=MAX(0,ROUND(IF(F6<=5000000,F6*0.2,(5000000*0.2)+((F6-5000000)*0.03)),0))
(26.1)	Pharmaceutical Rebate Receivables	Exhibit 3, Column 7, Line 0199999		*	$0	=MAX(0,ROUND(IF(F7<=10000000,F7*0.4,(10000000*0.4)+((F7-10000000)*0.05)),0))
(26.2)	Claim Overpayment Receivables	Exhibit 3, Column 7, Line 0299999		**	$0	=MAX(0,ROUND(IF(F8<=10000000,F8*0.4,(10000000*0.4)+((F8-10000000)*0.05)),0))
(26.3)	Loan and Advances to Providers	Exhibit 3, Column 7, Line 0399999		**	$0	=MAX(0,ROUND(IF(F9<=10000000,F9*0.4,(10000000*0.4)+((F9-10000000)*0.05)),0))
(26.4)	Capitation Arrangement Receivables	Exhibit 3, Column 7, Line 0499999		**	$0	=MAX(0,ROUND(IF(F10<=10000000,F10*0.4,(10000000*0.4)+((F10-10000000)*0.05)),0))
(26.5)	Risk Sharing Receivables	Exhibit 3, Column 7, Line 0599999		**	$0	=MAX(0,ROUND(IF(F11<=10000000,F11*0.4,(10000000*0.4)+((F11-10000000)*0.05)),0))
(26.6)	Other Health Care Receivables	Exhibit 3, Column 7, Line 0699999		**	$0	
(27)	Amounts Receivable Relating to Uninsured Accident and Health Plans	Included in Page 2, Column 3, Line 17		0.050	$0	
(28)	Amounts Due from Parents, Subs, and Affiliates	Page 2, Column 3, Line 23		0.050	$0	
(29)	Aggregate Write-Ins For Other Than Invested Assets	Page 2, Column 3, Line 25		0.050	$0	
(30)	Total Other Receivables RBC	Line (25) + Sum Lines (26.1) through (29)			$0	
(31)	Total Credit RBC	Lines (17) + (24) + (30)			$0	

*** Line (26.1) Pharmaceutical Rebates - A factor of .200 will be applied to the first $5,000,000 in Column (1), and a factor of .030 will be applied to the remaining amount in excess of $5,000,000.**

****Lines (26.2) - (26.6) Non-Pharmaceutical Rebates - A factor of .400 will be applied to the first $10,000,000 in Column (1) and a factor of .050 will be applied to the remaining amount in excess of $10,000,000.**

NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Greg Chew, Chair of Financial Analysis Solvency Tools (E) Working Group
Eli Snowbarger and John Litweiler, Co-Chairs of Financial Examiners Handbook (E) Technical Group

FROM: Steve Drutz, Chair of Health Risk-Based Capital (E) Working Group

DATE: March 22, 2024

RE: Referral for Pandemic Risk

In 2020, in light of the Covid-19 pandemic, the Health Risk-Based Capital (E) Working Group added into its working agenda an item to consider impact of COVID-19 and pandemic risks in the Health Risk-Based Capital (RBC) formula. During subsequent meetings held in 2023 and 2024, the Working Group evaluated whether RBC is the appropriate tool to capture pandemic risk. Some of the actions include:

- Looked into 2014 Health RBC interrogatories to analyze how companies allocated surplus or model for pandemic and biological risks.
- Received presentation by Texas Department of Insurance on "Pandemic Risk and Insurer Solvency – A Review of Personal Consumption Expenditures (PCE) on Healthcare Before, During, and After the COVID-19 Pandemic".
- Reviewed RBC trends for an extended period (2015-2021).
- Considered capital requirements for pandemic risk in other jurisdictions (e.g., Solvency II).

One specific trend noted from the Texas Department of Insurance presentation was the decrease in healthcare expenditures during the pandemic, and the return to historical norms that occurred as the pandemic subsided. This appeared to increase the difficulty in adequately pricing policies post pandemic. Based on the work and findings above, the Working Group concluded that changes, resulting from pandemic risks, to the Health RBC formula are not warranted for the time being. The Working Group would like to ask the Financial Analysis Solvency Tools (E) Working Group and Financial Examiners Handbook (E) Technical Group to evaluate whether the pandemic risk is being sufficiently addressed from their perspective, and if not, the need for enhancement in the financial analysis and/or financial examination process.

If you have any questions, or would like to further discuss, please contact the Health Risk-Based Capital (E) Working Group chair or vice chair (Steve Drutz, Matthew Richard), or NAIC staff Maggie Chang (mchang@naic.org).

Cc: Julie Gann, Maggie Chang, Eva Yeung, Rodney Good, Bill Rivers, Ralph Villegas, Bailey Henning

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Growth Test Results of Queries - Based on Triggering Benchmark with an Underwriting Loss in the Following Year

	Baseline	
Year	# of Total Companies w/ an U/W Loss	% of Total Companies w/ an U/W Loss
2022	432	40%
2021	460	44%
2020	318	32%
2019	366	39%
2018	326	36%
2017	329	37%
2016	366	42%
2015	377	44%
2014	362	44%

	Triggering Benchmark = Current Test			Triggering Benchmark = Based on 10% MM Growth			Triggering Benchmark = Based on Reversing 10% Threshold		
Year	# Cos Triggering	% of Companies Triggering	Difference from Baseline	# Cos Triggering	% of Companies Triggering	Difference from Baseline	# Cos Triggering	% of Companies Triggering	Difference from Baseline
2022	73	45%	5%	151	37%	-3%	67	52%	12%
2021	50	70%	26%	148	46%	2%	98	40%	-4%
2020	33	37%	5%	73	34%	2%	34	35%	3%
2019	22	49%	10%	92	41%	2%	52	43%	4%
2018	28	44%	8%	86	38%	2%	51	41%	5%
2017	53	60%	23%	122	43%	6%	43	41%	4%
2016	53	59%	17%	147	47%	5%	60	48%	6%
2015	62	60%	16%	139	44%	0%	40	35%	-9%
2014	36	53%	9%	89	43%	-1%	36	40%	-4%

Disaggregated Results Based on Size of Company (Size band by Member Months (MM))

	Based on Current Test (Difference in Total is Due to 0 MM Companies)			Based on 10% MM Growth		
Year	# Cos Triggering (0-20K, 20K-100K, 100K-1M, >1M)	% of Companies Triggering	Difference from Baseline	# Cos Triggering (0-20K, 20K-100K, 100K-1M, >1M)	% of Companies Triggering	Difference from Baseline
2022	20, 11, 27, 10	71%, 52%, 56%, 17%	31%, 12%, 16%, -23%	56, 30, 37, 28	65%, 53%, 33%, 19%	25%, 13%, -7%, -21%
2021	23, 11, 7, 5	85%, 65%, 47%, 63%	41%, 21%, 3%, 19%	50, 36, 41, 21	68%, 67%, 39% 23%	24%, 23%, -5%, -21%
2020	12, 10, 5, 4	60%, 67%, 20%, 17%	28%, 35%, -12%, -15%	26, 20, 21, 6	54%, 56%, 29%, 11%	22%, 24%, -3%, -21%
2019	10, 4, 4, 4	63%, 50%, 44%, 40%	24%, 11%, 5%, 1%	29, 16, 22, 25	71%, 47%, 29%, 34%	32%, 8%, -10%, -5%
2018	11, 3, 10, 2	79%, 43%, 43%, 14%	43%, 7%, 7%, -22%	27, 15, 29, 15	71%, 58%, 39%, 17%	35%, 22%, 3%, -22%
2017	13, 8, 16, 12	81%, 67%, 62%, 41%	44%, 30%, 25%, 4%	23, 18, 49, 32	70%, 47%, 48%, 29%	33%, 10%, 11%, -8%
2016	15, 8, 17, 12	79%, 80%, 63%, 39%	37%, 38%, 21%, -3%	17, 22, 56, 52	57%, 58%, 56%, 35%	15%, 16%, 14%, -7%
2015	12, 19, 17, 11	67%, 70%, 59%, 46%	25%, 26%, 19%, 2%	22, 29, 46, 42	69%, 66%, 46%, 31%	25%, 22%, 2%, -13%
2014	10, 7, 7, 9	59%, 70%, 54%, 41%	15%, 26%, 10%, -3%	16, 13, 35, 25	55%, 50%, 51%, 30%	11%, 6%, 7%, -14%